Exhibit 3 to the Salerno Declaration

UBS

For offshore investors

Emerging market bonds

Venezuela bonds: Of politics and swaps

CIO WM Research | **19 September 2016** 15:16 pm BST
Alejo Czerwonko, strategist, alejo.czerwonko@ubs.com

- Despite the opposition's strong showing at the 1 September demonstration, we think Chavismo will be able to hold on to power. The ruling party and the military have very strong incentives to delay the recall referendum vote till 2017. They maintain control of the necessary institutions to ensure this happens. Incentives for the ruling party and the military will likely change dramatically after 10 January 2017. The door then opens for them to attempt a shake-up from within by pushing out the highly unpopular President Nicolas Maduro through institutional means. It is hard to assess whether this base case scenario would involve a significant improvement in economic policy, though we believe it is relatively unlikely.
- After months of speculation, the national oil company PDVSA has put a voluntary debt exchange offer on the table, with the goal of lightening its bond redemption calendar in 2016 and 2017. The offer's terms were below market expectations, particularly the swap ratio. The CITGO Holding equity collateral is the proposed deal's main sweetener. It may not be enough to entice investors beyond public sector holders of the debt to participate.
- We therefore still expect a mandatory restructuring of Venezuela's sovereign bonds in the next few quarters. Investors with low risk tolerance and no appetite to undergo such an uncertain debt restructuring process should consider the recent uptick in Venezuelan bond prices as improved exit levels. We think avoiding positions that default or incur large total return losses is vital for a bond portfolio, and this is what ultimately explains our current recommendation.

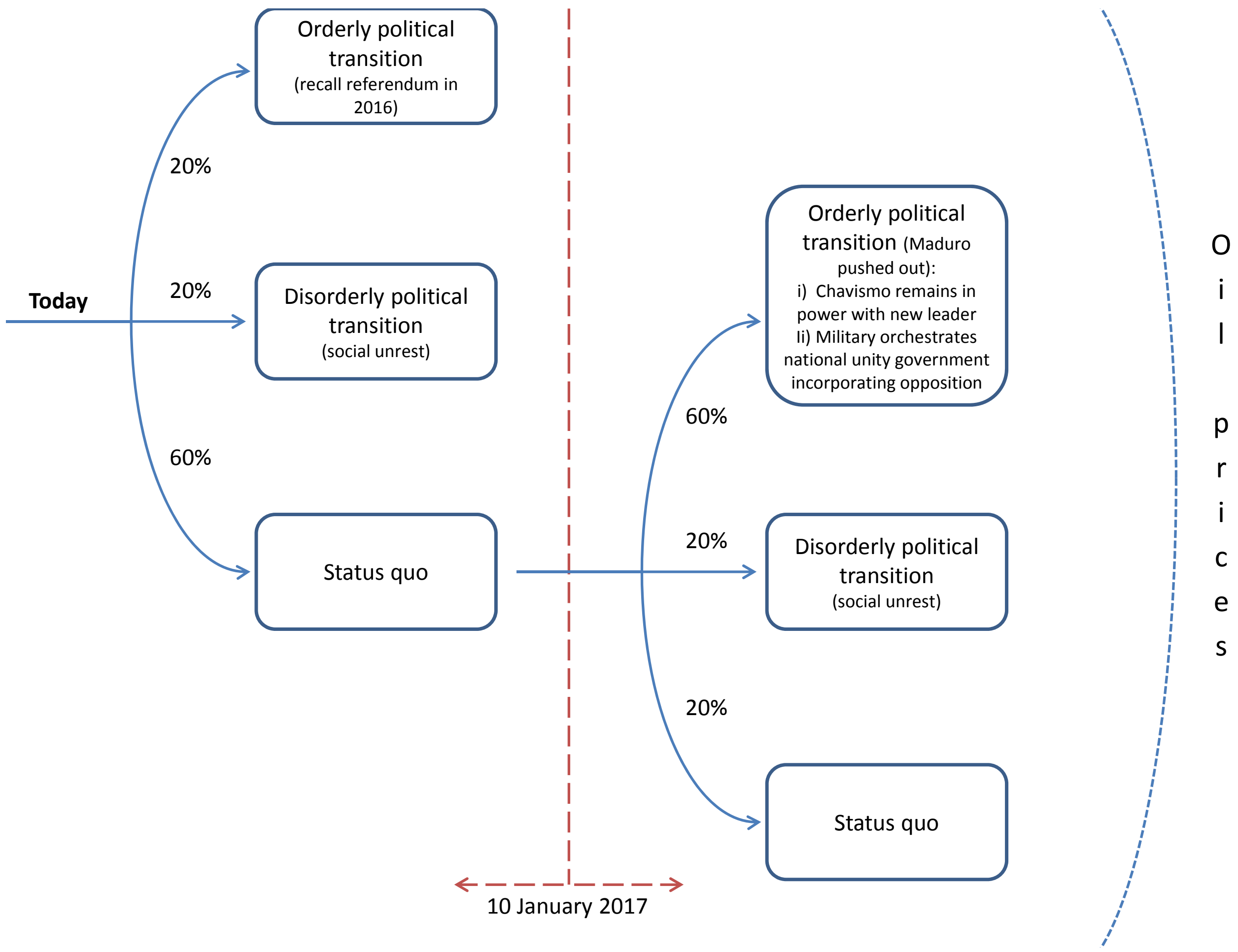
Much has happened in recent weeks in Venezuela, including the 1 September demonstration organized by the opposition, by some accounts one of the largest to take place in the country in many years. We are fast approaching the key 10 January 2017 date, the threshold after which a successful presidential recall referendum would simply lead to the sitting vice-president taking over as president, instead of a fresh election. As such, the domestic political power struggle will continue to have an outsized influence on sovereign bond valuations. So will the success or failure of the debt exchange proposed by the national oil company PDVSA on 16 September 2016. In this note, we review our expectations for the various political scenarios the country could face (see Fig. 1), and analyze the outlook for PDVSA's swap.

Related reports

- Venezuela bonds: What to expect amid heavy news flow, 22 July 2016
- Venezuela bonds: Something has got to give, 20 June 2016
- Venezuela bonds: End of the line draws closer despite measures, 19 February 2016
- Venezuela bonds: Expect increased political tension and polarization
- Emerging Markets Bond List, published weekly

Source: UBS

Fig. 1: Possible scenarios that might play out in Venezuela in the next 12 months
Given the fluid situation on the ground, and the lack of the information coming out of Venezuela, the scenario probabilities are highly subjective and represent our best guess.



Note: International oil prices remain key independent variable affecting scenario probabilities and expected payouts. Lower for longer prices would accelerate the pace of political change and help the opposition / a reforming Chavista government come to power faster.
Source: UBS, as of 18 September 2016

Political status quo to prevail in 2016

Despite the strong showing by the opposition on 1 September, we think Chavismo will hold on to power. The ruling party and the military have very strong incentives to delay the recall referendum vote until 2017. And they maintain control of the necessary institutions (National Electoral Council and Supreme Court, among others) to ensure this happens. In case of a sudden loss of power, many incumbents could risk prosecution and jail time given alleged widespread corruption at various levels of government.

In addition, the opposition is finding it hard to maintain the momentum in popular demonstrations as exemplified by the uninspiring showing at street protests held after the 1 September event.

That said, domestic economic conditions are extremely dire and look set to worsen. These have been well documented by the international press lately and include widespread shortages of food and other necessities and very high levels of inflation. Surprisingly,

episodes of social unrest, though increasing in number this year, remain localized and relatively contained.

But we simply cannot rule out that social dynamics will not spiral out of control, pushing the military to re-evaluate its support of the current administration (see the second scenario in Fig. 1).

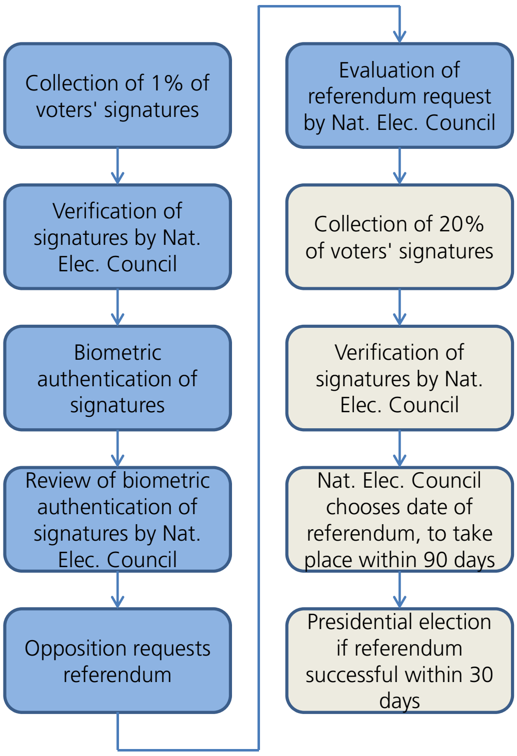
Change from within likely in 2017
Incentives for the ruling party and the military change dramatically after 10 January 2017. The door then opens for them to attempt a shake-up by pushing out the highly unpopular Maduro through institutional means. He could depart through either a recall referendum or a simple resignation. It is hard to assess whether this scenario would involve a significant improvement in economic policy, though we believe it is relatively unlikely. The military might orchestrate a coalition government involving the opposition and implement badly needed structural reforms. But if history is any guide, a continuation of economic policy inaction is also likely in 2017 under new Chavismo leadership.

PDVSA swap details are out - not as attractive as market expected
After months of speculation, the national oil company PDVSA put a voluntary debt exchange offer in the table on 16 September with the goal of lightening its bond redemption calendar in 2016 and 2017. The company is asking holders of its USD bonds maturing in April 2017 (5.25% coupon) and November 2017 (8.5% coupon), with an aggregate principal amount outstanding of USD 7.1bn to swap for a newly issued 8.5% coupon USD bond maturing in 2020, featuring four equal principal payments each year, collateralized by 50.1% of the equity of CITGO Holding, a US-based refinery which is an indirect wholly-owned subsidiary of PDVSA. The proposed swap involves a 1:1 ratio in terms of principal amount. There is an early tender deadline on 29 September and an expiration date of 14 October. On 17 October, the results of the swap will be announced, which would only take place if 50% or more of the notes are tendered, according to the company.

The terms of the offer are worse than what the market was expecting, particularly the swap ratio. The CITGO Holding equity collateral constitutes the main sweetener of the proposed deal. For several reasons, it may not be enough to entice investors beyond public sector holders of the debt to participate.

First, according to PDVSA's own valuation of CITGO Holding, 50.1% of its equity value stood at USD 4.15bn in December 2015. We would treat this number as an upper bound and would work with more conservative estimates, which would provide holders of new PDVSA securities limited protection. In addition, the collateral should not be taken at face value as i) investors would be right to be concerned this swap is being carried out without the consent of the opposition-controlled National Assembly; if the opposition comes to power down the road, there is a non-negligible probability it could repudiate bonds stemming from this swap; ii) it is difficult to say how much of CITGO will be left by 2020 considering the track record of its owner; and iii) CITGO's current creditors may seek to challenge the proposed structure in court.

Fig. 2: Recall referendum to face multiple obstacles in 2016
Steps shaded in blue have already been completed



Source: Prodavinci, CNE, UBS, as of September 2016

At the same time, the new PDVSA 2020 bond would be the only PDVSA or Venezuela bond with any kind of collateral. Some investors may consider this attractive.

Although unlikely, a swap with high levels of participation would, in our view, increase the probability of our base case of political status quo in 2016 and a change from within in 2017 as it would allow the current administration to fend off a default in the short term and remain in power for longer.

So what do I do with my Venezuela sovereign bonds?
Even penciling in an unlikely total participation of investors in PDVSA's swap, leading to net savings to Venezuela of around USD 6bn in 2017, considering our base case for oil prices and production, the country would still face net financing needs of about USD 10bn next year. This number assumes whoever is in power is able to maintain imports at current depressed levels. If the swap indeed takes place, authorities may feel pressure to relocate part of the 2017 hard currency savings stemming from the swap to imports in order to alleviate social pressures, in which case the USD funding gap would be larger.

We therefore still expect a mandatory restructuring of Venezuela's sovereign bonds in the next few quarters. Investors with low risk tolerance and no appetite to undergo such an uncertain debt restructuring process should consider the recent uptick in Venezuelan bond prices as improved exit levels. We believe that avoiding positions that default or incur large total return losses is vital for a bond portfolio, and this is what ultimately explains our current recommendation.

Fig. 3: Bond recommendations, as of 19 September 2016
Please note that our bond recommendations can change quickly depending on market conditions and developments in issuers' credit fundamentals. Please therefore refer to the Emerging Markets Bond List for our current bond recommendations

CIO View	ISIN	Issuer	Rank	Currency	Coupon	Maturity	Duration	S&P Rating	Moody's rating	Offer Price	Offer Yield
Sell	US922646AT10 Corp	Republic of Venezuela	Sr Unsecured	USD	13.625	8/15/2018	1.5	CCC	Caa3	76.5	30.83
Sell	USP97475AD26 Corp	Republic of Venezuela	Sr Unsecured	USD	7	12/1/2018	1.7	CCC	Caa3	61.4	33.09
Sell	USP97475AN08 Corp	Republic of Venezuela	Sr Unsecured	USD	7.75	10/13/2019	2.1	CCC	Caa3	51.6	34.63
Sell	USP97475AG56 Corp	Republic of Venezuela	Sr Unsecured	USD	6	12/9/2020	3.0	CCC	Caa3	46.9	28.33
Sell	USP17625AC16 Corp	Republic of Venezuela	Sr Unsecured	USD	12.75	8/23/2022	2.8	CCC	Caa3	56.8	28.10
Sell	USP17625AA59 Corp	Republic of Venezuela	Sr Unsecured	USD	9	5/7/2023	3.5	CCC	Caa3	45.8	26.98
Sell	USP97475AP55 Corp	Republic of Venezuela	Sr Unsecured	USD	8.25	10/13/2024	4.0	CCC	Caa3	44.5	24.21
Sell	XS0217249126 Corp	Republic of Venezuela	Sr Unsecured	USD	7.65	4/21/2025	4.3	CCC	Caa3	43.6	22.94
Sell	USP17625AE71 Corp	Republic of Venezuela	Sr Unsecured	USD	11.75	10/21/2026	3.8	CCC	Caa3	52.1	24.90
Sell	US922646AS37 Corp	Republic of Venezuela	Sr Unsecured	USD	9.25	9/15/2027	4.9	CCC	Caa3	49.7	21.24
Sell	USP17625AB33 Corp	Republic of Venezuela	Sr Unsecured	USD	9.25	5/7/2028	4.5	CCC	Caa3	46.6	22.21
Sell	USP17625AD98 Corp	Republic of Venezuela	Sr Unsecured	USD	11.95	8/5/2031	4.2	CCC	Caa3	52.8	23.40
Sell	US922646BL74 Corp	Republic of Venezuela	Sr Unsecured	USD	9.375	1/13/2034	4.9	CCC	Caa3	47.0	20.72
Sell	USP97475AJ95 Corp	Republic of Venezuela	Sr Unsecured	USD	7	3/31/2038	5.6	CCC	Caa3	41.3	17.63

Source: Bloomberg, UBS, as of 19 September 2016

Bond analysis

For further details on the CIO view on the bonds, please see the section on "Guidance on CIO WM bond recommendations" below.

Key risks to our views

Country-, industry-, or company-specific factors as well as global factors such as commodity prices, global liquidity, or access to foreign funding markets can affect the solvency and liquidity of a bond issuer and the prices of its bonds. These factors can change quickly and unexpectedly and present key risks to our views, both in absolute and in relative terms.

Guidance on CIO WM bond recommendations

CIO WM View

All bonds in this publication are flagged by one of the following labels: 'top', 'attractive', 'fair', 'expensive', or 'sell'. These labels reflect our assessment of the relative attractiveness of a bond when compared to issues with a similar credit rating, similar time-to-maturity and denominated in the same currency.

Top top

Among the bonds rated *attractive* we select bonds that are likely to have higher total returns compared to similar issues over an investment horizon of 6 months. By similar issues, we refer to bonds of a similar credit rating category, a similar duration, and issued in the same currency.

Attractive attr.

Bonds rated "attractive" are expected to generate a total return exceeding the average return of a broad bond benchmark consisting of instruments with a similar credit and duration risk, and issued in the same currency.

Our recommendation can stem from a positive view on the issuer's credit profile not fully reflected in the price, unduly high risk premiums, the probability of the issuer calling the instrument or deferring interest payments, and external factors like regulatory intervention.

Fair fair

Bonds that we view as fairly valued are expected to produce a total return in line with the average return of a broad bond benchmark consisting of instruments with a similar credit and duration risk, and issued in the same currency.

Expensive exp.

We anticipate bonds that we designate as expensive to earn a total return that lags the average return of a broad bond benchmark consisting of instruments with a similar credit and duration risk, and issued in the same currency.

Our recommendation can stem from a negative view on the issuer's credit profile not fully reflected in the price, unduly tight risk premiums, the probability of the issuer calling the instrument or deferring interest payments, and external factors like regulatory intervention.

Sell sell

While we expect our relative value preferences to produce a positive excess return, avoiding positions that default or incur large total return losses is of primary importance for a bond portfolio, in our view. When we think the risk of an adverse outcome for an instrument exceeds what is reflected in its current valuation, we issue a Sell recommendation. Such situations can include those in which the instrument appears likely to post negative total returns until redemption, either due to a highly negative yield to maturity or an imminent call at a price below market valuations. Depending on the specific situation, we may refrain from publishing a general Sell recommendation on all bonds of an issuer and only do so for individual bonds, for all bonds of a specific ranking or for all bonds with a specific remaining term to maturity.

Guidance on CIO WM credit risk flags

We provide credit risk flags for each issuer in the issuer description section at the back of this list. These express our views on the credit risk associated with the issuer over different time-frames. Cumulative credit risk typically increases with the extension of the time-frame. Accordingly, credit risk flags for the same issuer tend to be weaker the longer the time horizon is. For further information, please see the report "A guide to CIO's credit offering", published on 22 July 2015.

It is important to note that credit risk flags only reflect our view on the riskiness of a particular issuer for a certain time-frame. Therefore, a green credit risk flag does not imply that a particular bond of this issuer is attractive from a total return perspective. Similarly, a red credit risk flag does not necessarily imply that a bond should be avoided or sold. The credit risk flags should therefore not be seen as recommendations to buy, hold, or sell a bond of a particular maturity. In fact, any combination of risk flags and relative value recommendations is possible.

	0-2Yrs	2-5Yrs	5-10Yrs	>10Yrs		Sub.	Perp.
UBS credit view on senior bonds:					UBS credit view on other cover types:	n.a.	n.a.

Very low credit risk

We believe that the probability of debt payments not being made when they come due is very low (cumulative probability of less than 2%).

Medium credit risk

We believe that the probability of debt payments not being made when they come due is low to medium (cumulative probability of non-payment between 2% and less than 20%).

High credit risk

We believe that the probability of debt payments not being made when they come due is at least one-in-five cumulatively.

Guidance on CIO WM issuer views

Improving

We expect the credit profile of the issuer to improve over the next 12 months, to an extent that may justify upgrades by rating agencies.

Stable

We do not expect the credit profile of the issuer to change meaningfully over the next 12 months.

Deteriorating

We expect the credit profile of the issuer to deteriorate over the next 12 months, to an extent that may result in downgrades by rating agencies.

Appendix

Emerging Market Investments
Investors should be aware that Emerging Market assets are subject to, amongst others, potential risks linked to currency volatility, abrupt changes in the cost of capital and the economic growth outlook, as well as regulatory and socio-political risk, interest rate risk and higher credit risk. Assets can sometimes be very illiquid and liquidity conditions can abruptly worsen. WMR generally recommends only those securities it believes have been registered under Federal U.S. registration rules (Section 12 of the Securities Exchange Act of 1934) and individual State registration rules (commonly known as "Blue Sky" laws). Prospective investors should be aware that to the extent permitted under US law, WMR may from time to time recommend bonds that are not registered under US or State securities laws. These bonds may be issued in jurisdictions where the level of required disclosures to be made by issuers is not as frequent or complete as that required by US laws.
For more background on emerging markets generally, see the WMR Education Notes, "Emerging Market Bonds: Understanding Emerging Market Bonds," 12 August 2009 and "Emerging Markets Bonds: Understanding Sovereign Risk," 17 December 2009.
Investors interested in holding bonds for a longer period are advised to select the bonds of those sovereigns with the highest credit ratings (in the investment grade band). Such an approach should decrease the risk that an investor could end up holding bonds on which the sovereign has defaulted. Sub-investment grade bonds are recommended only for clients with a higher risk tolerance and who seek to hold higher yielding bonds for shorter periods only.

Statement of Risk

Fixed income - Bond market returns are difficult to forecast because of fluctuations in the economy, investor psychology, geopolitical conditions and other important variables. Corporate bonds are subject to a number of risks, including credit risk, interest rate risk, liquidity risk, and event risk. Though historical default rates are low on investment grade corporate bonds, perceived adverse changes in the credit quality of an issuer may negatively affect the market value of securities. As interest rates rise, the value of a fixed coupon security will likely decline. Bonds are subject to market value fluctuations, given changes in the level of risk-free interest rates. Not all bonds can be sold quickly or easily on the open market. Prospective investors should consult their tax advisors concerning the federal, state, local, and non-U.S. tax consequences of owning any securities referenced in this report.

Analyst certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

Appendix

Disclaimer

In certain countries UBS AG is referred to as UBS SA. This publication is for our clients' information only and is not intended as an offer, or a solicitation of an offer, to buy or sell any investment or other specific product. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situation and needs of any specific recipient. We recommend that recipients take financial and/or tax advice as to the implications of investing in any of the products mentioned herein. We do not provide tax advice. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. Other than disclosures relating to UBS AG, its subsidiaries and affiliates, all information expressed in this document were obtained from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to its accuracy or completeness. All information and opinions are current only as of the date of this report, and are subject to change without notice. This publication is not intended to be a complete statement or summary of the securities, markets or developments referred to in the report. Opinions may differ or be contrary to those expressed by other business areas or groups of UBS AG, its subsidiaries and affiliates. **Chief Investment Office (CIO) Wealth Management (WM) Research** is published by UBS Wealth Management and UBS Wealth Management Americas, Business Divisions of UBS AG (UBS) or an affiliate thereof. CIO WM Research reports published outside the US are branded as Chief Investment Office WM. **UBS Investment Research** is written by UBS Investment Bank. Except for economic forecasts, the research process of **CIO WMR is independent of UBS Investment Research**. As a consequence research methodologies applied and assumptions made by **CIO WMR and UBS Investment Research** may differ, for example, in terms of investment horizon, model assumptions, and valuation methods. Therefore investment recommendations independently provided by the two UBS research organizations can be different. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. The compensation of the analyst(s) who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking, sales and trading or principal trading revenues, however, compensation may relate to the revenues of UBS as a whole, of which investment banking, sales and trading and principal trading are a part.

UBS AG, its affiliates, subsidiaries and employees may trade as principal and buy and sell securities identified herein. At any time, investment decisions (including whether to buy, sell or hold securities) made by UBS AG, its affiliates, subsidiaries and employees may differ from or be contrary to the opinions expressed in UBS research publications. Some investments may not be readily realizable since the market in the securities is illiquid and therefore valuing the investment and identifying the risk to which you are exposed may be difficult to quantify. UBS relies on information barriers to control the flow of information contained in one or more areas within UBS, into other areas, units, groups or affiliates of UBS. Some investments may be subject to sudden and large falls in value and on realization you may receive back less than you invested or may be required to pay more. Changes in foreign currency exchange rates may have an adverse effect on the price, value or income of an investment. Past performance of an investment is not a guide to its future performance. Additional information will be made available upon request. This report is for distribution only under such circumstances as may be permitted by applicable law. The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. Distributed to US persons by UBS Financial Services Inc. or UBS Securities LLC, subsidiaries of UBS AG. UBS Switzerland AG, UBS Deutschland AG, UBS Bank, S.A., UBS Brasil Administradora de Valores Mobiliarios Ltda, UBS Asesores Mexico, S.A. de C.V., UBS Securities Japan Co., Ltd, UBS Wealth Management Israel Ltd and UBS Menkul Degerler AS are affiliates of UBS AG. UBS Financial Services Inc. accepts responsibility for the content of a report prepared by a non-US affiliate when it distributes reports to US persons. All transactions by a US person in the securities mentioned in this report should be effected through a US-registered broker dealer affiliated with UBS, and not through a non-US affiliate. The contents of this report have not been and will not be approved by any securities or investment authority in the United States or elsewhere. UBS Financial Services Inc. is not acting as a municipal advisor to any municipal entity or obligated person within the meaning of Section 15B of the Securities Exchange Act (the "Municipal Advisor Rule") and the opinions or views contained herein are not intended to be, and do not constitute, advice within the meaning of the Municipal Advisor Rule.

Version as per June 2016.